

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

FIRST-CLASS MAIL PACKAGE SERVICE (FCPS)
SERVICE STANDARD CHANGES, 2021

Docket No. N2021-2

**RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-7 OF PRESIDING OFFICER'S INFORMATION REQUEST NO. 5**
(July 26, 2021)

The United States Postal Service hereby provides its responses to the above listed questions of Presiding Officer's Information Request No. 5, issued on July 19, 2021. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FOTI TO
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1. Please refer to USPS-T-3 at 2. The Postal Service explains that "[t]he Postal Service projects that FCPS will continue to show modest growth...."
 - a. How much has FCPS grown so far in FY 2021?
 - b. Please provide a quantitative and qualitative discussion regarding the use of "modest" in this context.

RESPONSE:

- a. FCPS pieces grew 54 percent in the first two quarters of FY 2021 compared to the same period in FY 2020.
- b. Please see the response filed under seal as part of USPS-LR-N2021-2-NP13.

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2. Please refer to USPS-T-3 at 3, line 3. Please provide a quantitative and qualitative discussion regarding the use of "enhanced reliability" in this context.

RESPONSE:

Please see the response filed under seal as part of USPS-LR-N2021-2-NP13.

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3. Please refer to USPS-T-3 at 7. The Postal Service explains that "[t]he survey compiled results from 458 respondents that currently use FCPS. The survey stratification was designed to encompass FCPS shippers across industrial divisions and average daily shipping frequency." Please provide an example of the kind of industries and the average shipping frequency for the respondents included in the survey.

RESPONSE:

Please see the response filed under seal as part of USPS-LR-N2021-2-NP13.

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4. Please refer to USPS-T-3 at 8. The Postal Service explains that "FTC Survey results show that the majority of sampled FCPS-Commercial shippers stated they would maintain or, in some cases, increase FCPS volumes with these proposed changes."
 - a. How many shippers said they would maintain FCPS volumes?
 - b. Of those who said they would increase volumes, did they note how much they would increase by? If so, by how much?

RESPONSE:

Please see the response filed under seal as part of USPS-LR-N2021-2-NP13.

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5. Please refer to USPS-T-2 at 4. "A cost savings of \$304 million is expected as a result of the projected reduction in air capacity across all carriers. An additional \$15 to \$98 million is possible as a result of reducing reliance on higher-cost charters." Please explain the methodology and assumptions relied upon for the variance between \$15 to \$98 million. In your response, please include a public discussion of the pros and cons of using this methodology and these assumptions.

RESPONSE:

Charter costs are 100 percent volume variable, meaning that if volume or capacity increases by 10 percent, then the costs would also increase by 10 percent. Witness Hagenstein projected a 14 to 48 percent decrease in charter capacity. Therefore, given the 100 percent volume variability, this corresponds to a 14 to 48 percent decrease in charter costs. This is based on the established Commission methodology for attributing air transportation costs. See Summary Description of USPS Development of Costs by Segments and Components, Fiscal Year 2019 (July 1, 2020), "CS14-19.docx", at 14-3. However, some charter cost savings were already accounted for in the overall air savings calculation based on witness Hagenstein's model. In order to avoid double counting those charter savings, those reductions were subtracted from the additional projected charter reductions. Witness Hagenstein discusses the underlying assumptions for the projected 14 to 48 percent reduction in charter capacity in his response to POIR 2, Question 12, part a.

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6. Please refer to USPS-T-2 at 4 n.6. The Postal Service states that “payments to FedEx and UPS for failure to meet minimum volume commitments – is treated as an institutional cost.”
- a. Please elaborate on the terms and conditions that require the Postal Service to make payments to FedEx and UPS for failure to meet minimum volume commitments.
 - b. Please discuss the reasons why these payments are treated as an institutional cost.
 - c. Please provide the total annual payments to FedEx and UPS related to failures to meet volume commitments from FY2017 to FY2020 for each fiscal year.
 - d. Please discuss what impact, if any, the Postal Service expects the implementation of the proposal to have on its ability to meet minimum volume commitments to FedEx and UPS.

RESPONSE:

- a. These contracts are indefinite delivery, indefinite quantity contracts with minimum volume commitments that apply to each operating period. The minimum commitments were agreed to in order to ensure that the suppliers would provide a consistent amount of lift capacity to meet our continuing needs throughout the term of the contract.

As the response to question 6c below indicates, the payments made to our contract carriers for failure to meet minimum volume commitments are rare, as we typically exceed contract minimums. When the minimum capacity commitments are not achieved, the Postal Service pays the contract carrier the difference in price between the contract minimum and the achieved capacity over that operating period. The specific capacity commitments and advance planning periods differ by contract. Also, for FedEx, the Postal Service is required to provide a minimum average

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volume of mail, expressed in cubic feet, each operational day. Failure to achieve those minimums would be included in the amounts shown in the response to question 6c. However, in recent years, the Postal Service has not had difficulty tendering the prescribed minimum daily volume, so this portion of the amounts shown in response to question 6c is very small.

- b. The justification for treating these expenses as institutional costs is that they do not vary with volume changes. The same justification was provided when the institutional treatment of these expenses was first introduced in Docket No. R2005-1.¹ This methodological treatment was confirmed by Commission in Docket No. R2006-1 PRC-LR-4, PRC "B" Cost Segment Workpapers, workbook CS14, tab WS14.3. lines 57-59.²

¹ See Docket No R2005-1, Response of the United States Postal Service to Presiding Officer's Information Request No 12, Q14 (August 18, 2005).

² Presumably, the Commission treated these costs as institutional in Docket No. R2005-1, PRC-LR-3, Base Year Costs, but those are costs are unavailable on the Commission webpage. However, further support that those expenses were treated as institutional is found in the Commission's display of test year costs by component in which domestic air costs were 99.87 attributable. See Docket No. R2005-1 Opinion and Recommended Decision, Appendix E, page 2, CS 14, Domestic Air.

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c. Payments for Failure to Meet Contract Minimums FY2017- FY2020

Fiscal Year	UPS \$(000)	FEDEX DAY TURN \$(000)	TOTAL \$(000)	% of Transportation Expense
FY 2017	\$ 314	\$ 6,500	\$ 6,814	0.09%
FY 2018	\$ 196	\$ -	\$ 196	0.00%
FY 2019	\$ 3,368	\$ 7,258	\$ 10,625	0.13%
FY 2020	\$ 1,080	\$ -	\$ 1,080	0.01%
Total	\$ 4,958	\$ 13,758	\$ 18,716	

- d. The Postal Service does not anticipate that this proposal will result in additional costs for failure to meet minimum commitments. As described in my testimony on page 4, note 6, there is sufficient lead time until implementation to adjust the network appropriately and meet new planned minimums.

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7. Please refer to USPS-T-2 at 8. "If these preliminary estimates prove valid once more robust modeling efforts are completed, this optimization of the NDC network could result in an additional \$62 to \$116 million in savings."
- a. Please confirm that this savings estimate was calculated using assumed increases in capacity utilization. If confirmed, please explain how these estimates were developed. If not confirmed, please provide supporting workpapers.
 - b. Is the Postal Service doing or planning to do more analysis before implementing changes to the NDC network? If so, please describe the nature and scope of that additional analysis, and provide a timeline for the Postal Service plan to provide updated modeling of the NDC network changes.
 - c. Please provide a quantitative and qualitative discussion regarding the use of "more robust modeling efforts" in this context.

RESPONSE:

- a. Partially confirmed; the savings estimate is calculated using Witness Hagenstein's estimates of changes in highway capacity in the Inter-NDC and Intra-NDC networks. The Inter-NDC estimate of a 14 to 28 percent capacity reduction was based on assumed increases in capacity utilization, as suggested by the question. These reductions correspond to \$49 to \$97 million. However, the Intra-NDC estimate of a 6 to 8 percent capacity reduction was based on a study of potential trip reductions at two NDC campuses. These reductions correspond to \$14 to \$18 million. Witness Hagenstein discusses the development of these estimates in his response to POIR 1, Question 9.
- b. Redirected to witness Hagenstein.
- c. This phrase is intended to draw a distinction between the robust modeling effort that supports the Inter-Area, Inter-Cluster, and Inter-P&DC capacity

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change estimates described extensively in Witness Hagenstein's testimony, and the high-level, preliminary estimates that support the Inter- and Intra-NDC capacity changes, which were not based on the same type of modeling effort. However, it is important to recognize that there are opportunities for additional savings in the NDC network that would result from these proposed changes, even if the precise magnitude of those potential savings is not yet known.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HAGENSTEIN TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 5**

7. Please refer to USPS-T-2 at 8. "If these preliminary estimates prove valid once more robust modeling efforts are completed, this optimization of the NDC network could result in an additional \$62 to \$116 million in savings."
- a. Please confirm that this savings estimate was calculated using assumed increases in capacity utilization. If confirmed, please explain how these estimates were developed. If not confirmed, please provide supporting workpapers.
 - b. Is the Postal Service doing or planning to do more analysis before implementing changes to the NDC network? If so, please describe the nature and scope of that additional analysis, and provide a timeline for the Postal Service plan to provide updated modeling of the NDC network changes.
 - c. Please provide a quantitative and qualitative discussion regarding the use of "more robust modeling efforts" in this context.

RESPONSE:

- a. Answered by witness Kim.
- b. The Postal Service is planning on modeling and analyzing the NDC network and combined NDC and FCM networks. This model will introduce the NDC end-to-end products into the FCM network model. Conceptually, volumes for the NDC network will flow STC to STC versus NDC to NDC. The effort is estimated to take approximately four to six months to complete and is expected to start by the end of FY2021.
- c. Answered by witness Kim.